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C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 000172

SIPDIS

DEPT FOR NEA/FO, NEA/ELA

ALSO FOR I/O PDAS WARLICK

P FOR DRUSSELL AND RRANGASWAMY

USUN FOR WOLFF/GERMAIN/SCHEDLBAUER

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TAGS: PGOV ECON EFIN LE

SUBJECT: LEBANON: FINMIN CHATAH CALLS LEBANESE GOVERNMENT
"DYSFUNCTIONAL"

REF: A. BEIRUT 141

¶B. BEIRUT 133

Classified By: Ambassador Michele J. Sison for reasons 1.4
(b) and (d).

SUMMARY

¶1. (C) In a February 11 meeting with visiting USAID Special Assistant for the Middle East George Laudato, Finance Minister Mohammad Chatah called the current Lebanese government "dysfunctional," and expressed exasperation with the lack of progress on political and economic reform. He saw little movement in the budget dispute between PM Fouad Siniora and Parliament Speaker Nabih Berri over the Council for the South, and believed President Sleiman would have to find a compromise. He said a consensus was growing within March 14 that the next government should not be a national unity government, though he supposed that the March 8/Aoun alliance would want one, should it win.

¶2. (SBU) Chatah said the IMF was pleased with Lebanon's economic performance in 2008. Though he had not yet seen evidence in Lebanon of a significant impact from the global economic crisis, he hoped to take some policy steps to counter any negative effects which might come about in 2009. He did not anticipate telecom privatization occurring before the end of 2009 at the earliest, but assured Laudato that he reminded the cabinet repeatedly of the importance of enacting reform to receive budget assistance from the U.S. and other donors. End summary.

FRUSTRATION ON LACK OF REFORM

STILL NO BUDGET

¶3. (C) Visiting USAID Special Assistant for the Middle East George Laudato and the Ambassador, accompanied by USAID Mission Director and EconOff, called on Finance Minister Mohammad Chatah in his ministry office in downtown Beirut February 11. Ministry UNDP Project Manager Chris de Clercq and Advisor to the Minister Huda Saigh also attended the meeting. Chatah opened the meeting by declaring, "The government is dysfunctional!" and expressed frustration that even seemingly uncontroversial policy decisions have become fodder for political battles. Despite consensus on what reforms are necessary, as outlined in the

cabinet's ministerial statement, Chatah said the government was not taking even the smallest steps forward, as politics deadlock the system.

¶ 14. (C) Chatah confirmed that there had been no progress on resolving the budget dispute between PM Siniora and Speaker Berri (Ref A), and believed President Michel Sleiman would have to intervene to find a compromise. Chatah assessed that the fairest solution would be for Berri to submit his projects for the Council for the South (CFS) to the cabinet for approval, as the Council for Development and Reconstruction does.

NO MORE UNITY GOVERNMENTS

¶ 15. (C) Chatah blamed the current national unity government for deadlock, not only on reform and budget issues, but also on important appointments in the judiciary and central bank. He said he advocates a "partisan" government, where the majority is able to make policy, implement it, and be held accountable for it. "The problem now is that the politicians don't want to be held accountable," he said. Chatah believed there was increasing support within March 14 for not participating in a national unity government after the next elections, although he noted that the current opposition would likely want one, to lend legitimacy to its leadership and give an impression of full participation in government.

LEBANESE ECONOMY STILL STRONG

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¶ 16. (SBU) Chatah said that during the February 6 visit of IMF Deputy Managing Director Murilo Portugal, IMF officials had been pleased with Lebanon's economic growth in 2008, which they estimated at 8%. While Chatah anticipated the economy would slow down in 2009 because of the global financial crisis, he still expected modest growth of 3%. He said Lebanon has remained insulated from the crisis, but he was looking into several policy initiatives to address the crisis, including incentives and subsidies for job creation and changes in social security payments by private firms. Asked about rumors of layoffs of Lebanese expats in the Gulf, Chatah said he had no data on how many had returned to Lebanon, but based on anecdotal evidence, he figured the number "can't be massive," and has not had a significant impact on Lebanon yet.

NO TIMELINE FOR TELECOM PRIVATIZATION

¶ 17. (C) Chatah pointed out that the privatization of the mobile telecom companies is GOL policy, as outlined in the ministerial statement, but said that given market conditions and the upcoming elections, he did not see the privatization going through until the end of 2009 at the earliest. He noted that the current management contracts are renewable but also cancelable, allowing privatization at any time in the next two years. When pushed about the likely timing, Chatah replied, "I wouldn't want to put a time on it."

¶ 18. (SBU) Nonetheless, Chatah said he makes the point at every cabinet meeting that there is donor money riding on reform in Lebanon, including the \$75 million to be disbursed by the USG for budget support upon completion of the privatization. He was anxious to move forward with the disbursement of the USG's \$50 million pledge after Lebanon's recent fulfillment of the gas excise benchmark (Ref B), and he called Central Bank of Lebanon (CBL) Governor Riad Salameh during the meeting to request maturity data for CBL-held Eurobonds, in the hope the USG will pay those higher-interest bonds. He noted the gas excise adjustment should bring in over \$500 million annually to the GOL.

SISON